United Nations A/53/692

General Assembly

Distr.: General
20 November 1998

Original: English

Fifty-third session
Agenda item 112
Review of the efficiency of the administrative and financial functioning of the United Nations

Procurement reform

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Secretary-General on procurement reform (A/53/271), submitted pursuant to General Assembly resolution 52/226 A of 31 March 1998. The Committee also had before it document A/C.5/52/46, submitted pursuant to Assembly resolution 52/226 A; the latter report contains the Secretary-General's proposals on a sharper definition of exigency, guidelines on methods of inviting bids and revision of United Nations Financial Regulations and Rules pertaining to procurement. During its consideration of the reports, the Advisory Committee met with representatives of the Secretary-General who provided additional information.

2. After discussions and following suggestions made by the Committee, the Administration issued a corrigendum to paragraph 17 of document A/53/271. On the basis of proposals made by the Committee, an addendum (A/53/271/Add.1) was also issued. The Committee considers the overall presentation and format of the addendum to be an improvement on the Secretary-General's original report (A/53/271).

3. In the addendum, the Secretary-General indicates progress on the implementation of measures recommended by the General Assembly in its resolution 52/226 A with respect to procurement reform. The addendum also shows considerable progress in the implementation of the recommendations of the Board of Auditors, as well as of the High-level Group of Experts on Procurement.

4. The Advisory Committee is aware that the period covered by the Board of Auditors' most recent audit, namely, the biennium 1996–1997, has not been affected fully by the procurement reform measures instituted by the Secretary-General within the United Nations. In this connection, the Committee recalls that, in its report of 19 October 1998 (A/53/513, para. 24), the Committee had requested the Board of Auditors, during the next audit cycle, to evaluate the effectiveness of the measures taken in the reform process by conducting a horizontal audit of procurement.

5. The Advisory Committee notes the views of the Secretary-General concerning the use of suppliers recommended by requisitioners. The matter is still under consideration, as reflected in table 2 of the addendum (A/53/271/Add.1) and paragraph 19 of the main report (A/53/271).

6. In this connection, the Advisory Committee recalls the recommendation of the Board of Auditors that requisitioning departments should not be permitted to specify the source of manufacturer.[1] In its report of 19 October 1998 (A/53/513), the Committee had also stated that it considered the practice of the use of suppliers recommended by requisitioners unacceptable and had requested the

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Administration to take immediate action against those who continued to disregard proper procedures. The Committee is of the view that if there is a properly functioning comprehensive vendor roster there would be no need for the exceptions mentioned in the report of the Secretary-General. Furthermore, the Committee expects that steps will be taken, where necessary, to ensure that specifications are not deliberately tailored to predetermine the choice of supplier. Finally, in accordance with the principle of segregation of responsibilities in this regard, the Committee expects that the decision of the General Assembly, as stated in its resolution 52/226 A, will be fully implemented.

7. The issue of procurement from developing countries and countries with economies in transition has been discussed in paragraph 15 of the Secretary-General's main report and partially elaborated in paragraphs 2 to 8 of the addendum. The Advisory Committee notes that the addendum does not contain any information or statistical data with regard to procurement from countries with economies in transition. Furthermore, the Committee considers the information contained in paragraph 7 of the addendum, concerning procurement from developing countries, somewhat misleading. The data in that paragraph attempts to justify the statement that procurement from developing countries has improved by quoting statistics from the 1997 annual statistical report issued by the Inter-Agency Procurement Services Office (IAPSO). As indicated in that report, of the total volume of procurement by United Nations organizations during 1997, which amounted to $2,895 million, $1,197 million, or 41 per cent, was from developing countries.

8. The Advisory Committee believes that there is a need to distinguish between purchase orders made in developing countries to acquire goods and/or services from elsewhere and procurement of goods and/or services from developing countries. In this connection, on enquiry, the Committee was informed that data on procurement in the IAPSO report has been indicated based on country of procurement for goods, and country of head office for services. Procurement orders and contracts for services are reported on the basis of contract amount and not on expenditures incurred. The Committee was also informed that, at the present time, it was not feasible for most United Nations agencies to report data based on country of origin. That being the case, in his next report on procurement, the Secretary-General should indicate on what basis country of procurement is determined and how this methodology compares with recognized international practice.

9. The Advisory Committee notes that the General Assembly, in paragraph 13 of its resolution 52/226 A, requested the Secretary-General to take all possible measures to increase procurement from developing countries and countries with economies in transition. The Committee notes from paragraph 15 of the report of the Secretary-General (A/53/271) the various efforts made to comply with the Assembly's request, including the attendance of officials of the Procurement Division at trade fairs in various countries. On enquiry, the Committee was informed that the countries in question were Argentina, Canada, France, Germany, India, Israel, the Netherlands, Spain, Thailand, Turkey and the United States of America. The Committee points out that the majority of the countries listed above would not be classified as developing countries.

10. The Advisory Committee recalls that, in paragraph 28 of its report (A/53/513), the Committee had made preliminary observations on the question of a sharper definition of exigency as outlined in the report of the Secretary-General (A/C.5/52/46). The Committee notes that the text in paragraph 10 of document A/53/271 supersedes the text in document A/C.5/52/46. In the Committee's view, exigency does not rule out approval by the Committee on Contracts; what it does circumvent is the need to go through the competitive bidding process, which should be the normal practice. In this connection, the Committee believes that comprehensive information on past exigency action should have been provided in the document to have enabled the Committee to better evaluate the definition on the basis of experience. The definition of exigency as outlined in the report of the Secretary-General, appears too broad to be of any real value in exercising the required control over the use of exigency. As indicated to the Advisory Committee by the Audit Operations Committee of the Board of Auditors, the Board intends to review this issue in the course of the next audit of peacekeeping operations.

11. The Advisory Committee notes the information in paragraphs 24 and 25 of the report of the Secretary-General (A/53/271) regarding the upgrading of the post of the Chief of the Procurement Division from the D-1 to the D-2 level. In this connection, the Committee refers to its comments and observations in its report of 5 December 1997 (A/52/7/Add.3, para. 16). Given the fact that there has been a considerable decrease in procurement activities in the United Nations caused by the decrease in volume and by increased delegation of authority, and that, as can be seen from the table in paragraph 7 of the report of the Secretary-General, the overall number of cases presented to Headquarters has dramatically declined, the Committee reiterates its position as indicated in document A/52/7/Add.3. As to the point made in paragraph 25 of the report of the Secretary-General that the head of procurement

would be required to exercise a leadership role in common services and inter-agency endeavours in procurement matters, the Committee points out that as the Procurement Division is responsible for only about 11 per cent of the system-wide total, the need for the United Nations to provide leadership in this regard is therefore not very compelling. Finally, the Committee expects the Secretary-General to indicate in the context of his proposed programme budget for the biennium 2000–2001, as well as in the next report on the Support Account, the effect of the dramatic decline in procurement activities.

12. The Advisory Committee notes that document A/53/271/Corr.1 was issued following an exchange of views between the Committee and representatives of the Secretary-General and relates to the situation regarding the implementation of paragraph 15 of General Assembly resolution 52/226 A. In this connection, the Committee notes in particular the view of the Legal Counsel that, in the event the Assembly should decide to adopt a policy of preference of awarding procurement contracts to equally qualified vendors from countries that are current in the payment of their assessed contributions, then this should be done through an amendment to financial regulation 10.5 of the Financial Regulations and Rules of the United Nations.

13. The Advisory Committee notes the General Assembly's request, in paragraph 4 of its resolution 52/226 A, with respect to submission of proposals by the Secretary-General for revision of the Financial Regulations and Rules of the United Nations. The Committee points out that the matter has remained pending for a number of years while the Secretariat has continued to express its frustration about the perceived rigidities inherent in the regulations and rules governing procurement. That being the case, it is incumbent upon the Secretariat to submit, without further delay, proposals for the requisite changes for review by the Committee and subsequent approval by the General Assembly.

Notes

[1] *Official Records of the General Assembly, Fifty-third Session, Supplement No. 5* (A/53/5), vol. I, para. 82.